

Message Text

UNCLASSIFIED

PAGE 01 BANGKO 07096 01 OF 02 021150Z

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 INR-10 LAB-06 NSAE-00 SIL-01 INT-08 L-03 H-03

FTC-01 OPIC-12 DRC-01 XMB-07 AGR-20 TAR-02 FEA-02

EUR-25 /188 W

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R 020113Z MAY 74

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 2890

UNCLAS SECTION 1 OF 2 BANGKOK 7096

E.O. 11652: N/A

TAGS: EIND, EFIN, TH

SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 053993, 086373

1. FOLLOWING SIX PARAGRAPHS CONSTITUTE EMBASSY'S NARRATIVE STATEMENT OF THAILAND'S FOREIGN INVESTMENT CLIMATE, REQUESTED REFTELS.

(PARAGRAPH NUMBERS MAY BE REMOVED FOR PURPOSES OF COMPENDIUM.):

2. THAILAND SHOULD BE AN ATTRACTIVE PLACE TO INVEST. THE ECONOMY IS SOLID, ITS CURRENCY IS STRONG, FOREIGN EXCHANGE RESERVES ARE HIGH, LABOR COSTS ARE LOW, AND THE POPULATION LACKS ANY POTENTIALLY DISRUPTIVE ETHNIC OR RELIGIOUS SCHISMS. IT HAS A RICH AGRICULTURAL BASE, AND THERE IS NO ABJECT POVERTY. MOREOVER, FOREIGN INVESTMENT HAS LONG BEEN OFFICIALLY RECOGNIZED AS AN IMPORTANT DEVELOPMENT TOOL. ITS BOARD OF INVESTMENT, WHILE UNDERSTAFFED AND INSUFFICIENTLY SUPPORTED, IS QUITE EFFICIENT. IT PROVIDES MANY MEANINGFUL INCENTIVES AND GUARANTEES TO PROMOTED INVESTORS (WITH JOINT VENTURES AND EXPORT-ORIENTED INDUSTRIES GIVEN PRIORITY), INCLUDING TAX HOLIDAYS, TARIFF WAIVERS, AND ASSURANCES AGAINST NATIONALIZATION AND GOVERNMENTAL COMPETITION. OPIC INSURANCE IS ALSO AVAILABLE. MOST ESTABLISHED

UNCLASSIFIED

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PAGE 02 BANGKO 07096 01 OF 02 021150Z

INVESTORS HAVE PROSPERED.

3. YET, THE INVESTMENT CLIMATE IS NOT EXACTLY ROSY. THERE ARE JUST TOO MANY UNCERTAINTIES TO SUIT MOST BUSINESSMEN. SINCE THE OVERTHROW OF ITS RULING GENERALS LAST OCTOBER, THAILAND'S POLITICAL FUTURE IS STILL IN DOUBT. THE CURRENT APPOINTED CARETAKER GOVERNMENT, WHILE DEDICATED, HAS BEEN SERVING RATHER RELUCTANTLY AND IS WAITING TO BE REPLACED BY A NEW, REPRESENTATIVE GOVERNMENT, UNDER A NEW CONSTITUTION STILL BEING DRAFTED, THROUGH ELECTIONS STILL TO BE HELD. SOME PESSIMISTS HAVE LITTLE HOPE OF LASTING SUCCESS FOR THIS EXPERIMENT IN DEMOCRACY. IN ANY EVENT, THE NEXT GOVERNMENT'S COLORATION, POLICIES AND STRENGTH ARE STILL MATTERS OF CONJECTURE. ALTHOUGH MOST ASSUME IT WOULD CONTINUE A POLICY OF FAVORING FOREIGN INVESTMENT, THEY WONDER, FOR EXAMPLE, HOW IT WILL RESPOND TO LATENT FEELINGS OF NATIONALISM IN THE COUNTRY THAT RECEIVED THEIR MOST CONCRETE RECENT MANIFESTATION WITH THE PROMULGATION OF A MILDLY RESTRICTIVE ALIEN BUSINESS LAW IN LATE 1972.

4. IN ADDITION TO POLITICAL UNCERTAINTY, MANY PROSPECTIVE INVESTORS ARE AT LEAST TEMPORARILY DETERRED BY INFLATION, UNPRECEDENTED FOR THAILAND EVEN THOUGH MILD COMPARATIVELY, WITH ADVERSE EFFECTS ON CONSTRUCTION AND OPERATING COSTS, AND WITH NO SOLUTION IN SIGHT, WHILE THE OIL CRISIS AND RAW MATERIAL SHORTAGES CREATE OTHER PROBLEMS. THUS, PRIVATE INVESTMENT HAS BEEN QUITE STAGNANT.

5. SOME BUSINESSMEN YEARN FOR THE OLD DAYS WHEN, DESPITE THEIR CORRUPTION AND INEFFICIENCY, THE LEADERS AT LEAST MAINTAINED A VERY PERMISSIVE ATTITUDE TOWARD BUSINESS, ASSURED A DOCILE LABOR FORCE, AND CREATED A CERTAIN STABILITY. ONCE THEY LEARNED THE GROUND RULES, FOREIGNERS COULD OPERATE RELATIVELY FREELY AND PROFITABLY. THEY KNEW WHERE THEY STOOD, AND COULD PLAN AHEAD.

6. RELIABLE STATISTICS WERE NOT MAINTAINED DURING THAT PERIOD, BUT IT IS CLEAR THAT FOREIGN INVESTMENT MOUNTED STEADILY, ESPECIALLY DURING THE LATE 1960'S, ALTHOUGH TAPERING OFF SINCE 1969, AND IT HAS INDEED CONTRIBUTED TO THAILAND'S INDUSTRIAL DEVELOPMENT. AT FIRST MOST CAPITAL CAME FROM THE U.S., LATER MAINLY FROM JAPAN. INDUSTRY'S CONTRIBUTION TO GDP ROSE FROM 12 PERCENT TO 15 PERCENT DURING THE 1960'S

UNCLASSIFIED

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PAGE 03 BANGKO 07096 01 OF 02 021150Z

AND REACHED 19 PERCENT IN 1972. IT IS ESTIMATED THAT FOREIGN CAPITAL COMPRISES ABOUT ONE THIRD OF TOTAL EQUITY IN INDUSTRY.

7. LATELY, PERHAPS FEELING THAT PAST SUCCESSES WERE IN SPITE OF, NOT BECAUSE OF THE GOVERNMENT, NEW INVESTORS ARE BEGINNING TO COME IN, IN SMALL BUT GROWING NUMBERS, WHILE SOME EXISTING ONES ARE EXPANDING THEIR FACILITIES. A MOOD OF CAUTIOUS OPTIMISM MAY THUS BE DEVELOPING.

8. ESTIMATED INVESTED STATISTICS. A MAIN WEAKNESS OF THAILAND'S FOREIGN INVESTMENT POLICY HAS BEEN THAT ANY GOALS SET BY THE GOVERNMENT HAVE BEEN BROAD AND NON-SELECTIVE WITH RESPECT TO INDUSTRIAL SECTORS AND SOURCES OF CAPITAL. THIS IS DUE IN PART TO FACT THAT COMPLETE AND RELIABLE STATISTICS HAVE NOT BEEN MAINTAINED, AND THOSE THAT DO EXIST HAVE NOT BEEN CENTRALIZED IN ANY SINGLE GOVERNMENT OFFICE. EVEN GOVERNMENT OFFICES MUST FREQUENTLY TURN TO PRIVATE SECTOR IN EFFORTS TO OBTAIN STATISTICS, UNDOUBTEDLY RESULTING IN SOME DISTORTION.

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PAGE 01 BANGKO 07096 02 OF 02 021142Z

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R 020120Z MAY 74

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 2891

UNCLAS SECTION 2 OF 2 BANGKOK 7096

DIFINITIONS OF FOREIGN INVESTMENT ALSO VARY, ACCORDING TO SOURCE. THE EMBASSY IS THUS ABLE TO MAKE ONLY VERY ROUGH ESTIMATES AT THIS TIME OF FOREIGN INVESTMENT TOTALS AND BREAKDOWN, IN TERMS REQUESTED BY REFTEL.

9. U.S. INVESTMENT. BECAUSE SUCH OFFICIAL STATISTICS ARE NOT AVAILABLE, THE AMERICAN CHAMBER OF COMMERCE, AT EMBASSY'S URGING, CONDUCTED A SURVEY OF ALL ITS MEMBERS (REPRESENTING THE VAST BULK OF AND ALL LARGE AMERICAN COMPANIES WITH INVESTMENTS HERE) IN LATE 1973, ASKING FOR INFORMATION ON THEIR PARENTS' SHARE OF INVESTMENT IN THAI COMPANIES AS OF DECEMBER 31, 1972. INVESTMENT WAS DIFINED

AS TOTAL EQUITY CAPITAL AND MEDIUM AND LONG-TERM PRIVATE LOANS, AND INCLUDED UNDISTRIBUTED PROFITS AND REVOLVING LINES OF CREDIT FROM U.S. PRINCIPALS (AND WOULD THUS BE HIGHER THAN BOOK VALUE). TOTAL REPORTED IN THIS SURVEY WAS APPROXIMATELY \$76 MILLION. THE CHAMBER HAS UNOFFICIALLY STATED IT WOULD SETTLE ON A FIGURE OF "BETWEEN 75 AND 100 MILLION DOLLARS", SINCE ITS SURVEY COVERED MOST BUT NOT ALL AMERICAN COMPANIES, AND SINCE MANY AMERICAN COMPANIES BROUGHT INTO JOINT VENTURES RELATIVELY LITTLE EQUITY CAPITAL, BUT RATHER KNOW-HOW, THE VALUE OF WHICH MAY NOT BE REFLECTED IN THE COMPANIES' BOOKS. BECAUSE OF RELUCTANCE OF SOME MEMBERS, CHAMBER RELEASED NO SECTOR BREAKDOWN. SOME INDICATION OF A BREAKDOWN MIGHT BE

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PAGE 02 BANGKO 07096 02 OF 02 021142Z

DERIVED FROM A RECENT ANNOUNCEMENT OF THE BOARD OF INVESTMENT, THAT REGISTERED U.S. CAPITAL OF FIRMS GRANTED PROMOTION CERTIFICATES FROM 1960 TO MAY 1972 AMOUNTED TO \$19.9 MILLION, BROKEN DOWN APPROXIMATELY AS FOLLOWS:

MINING AND SMELTING:	44 PERCENT
PETROLEUM:	28 PERCENT
MANUFACTURING:	21 PERCENT
OTHER INDUSTRIES:	7 PERCENT

IT SHOULD BE NOTED THAT MANY FOREIGN COMPANIES HAVE INVESTED WITHOUT HAVING OBTAINED PROMOTION CERTIFICATES, AND WOULD NOT BE REPRESENTED IN THESE PERCENTAGES.

10. DIRECT INVESTMENT BY ALL COUNTRIES. AGAIN, NO CALCULATION IS AVAILABLE AT PRESENT TIME, BUT FOLLOWING BOARD OF INVESTMENT STATISTICS OF REGISTERED CAPITAL OF FIRMS GRANTED PROMOTION CERTIFICATES, 1960 TO MAY 1972, IN US \$ MILLION DOLLARS, GIVE SOME INDICATION OF SOURCE:

TOTAL (INCLUDING THAILAND AND U.S.):	366.3
THAILAND:	246.0
TOTAL FOREIGN:	120.3
JAPAN	K 41.8
UNITED STATES	V 19.9
TAIWAN	18.9
UNITED KINGDOM	6.8
OTHER	32.9

SINCE MUCH OF U.S. INVESTMENT WAS BROUGHT IN PRIOR TO 1960, OR HAS OTHERWISE NOT HAD BOI PROMOTION CERTIFICATE, EMBASSY SUSPECTS ITS PORTION OF FOREIGN DIRECT INVESTMENT IS MUCH CLOSER TO THAT OF JAPAN. AND MAY EVEN EXCEED IT.

11. STUDIES ON FOREIGN INVESTMENT IN THAILAND ARE CURRENTLY BEING MADE BY AT LEAST TWO GROUPS WHICH, WHEN COMPLETED, WILL HOPEFULLY MAKE THE PICTURE MUCH CLEARER. THE ECONOMIC COOPERATION CENTRE FOR THE ASIAN AND PACIFIC REGION (ECOCEN) IS REANALYZING THE BOI'S

1971 AND 1972 DAT, AND IN FEBRUARY THE BOARD CHAIRMAN OF THE BOI,
MINISTER OF INDUSTRY OSOT KOSIN, APPOINTED A 12-MAN WORKING GROUP TO
EVALUATE FOREIGN INVESTMENTS IN THAILAND, WHICH WAS TO PRODUCE A
REPORT

UNCLASSIFIED

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PAGE 03 BANGKO 07096 02 OF 02 021142Z

WITHIN THREE MONTHS. THE EMBASSY WILL REPORT ANY USEFUL INFORMATION
FROM THOSE STUDIES.
MASTERS

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